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THE LEAGUE OF WOMEN VOTERS OF THE UNITED STATES
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A NEW ERA IN BALANCE?

Until recently, "balance of payments" was a specialist's term. Overnight it has become a part of the American vocabulary.

The fact that we have, or even could have, a large net "deficit" in financial transactions with other countries has come as a rude shock to many Americans. The rest of the world suffered from an acute dollar shortage for so many years that balance-of-payments deficits have become identified with the dollar shortage. It was assumed that payments deficits were headaches other countries had to put up with from time to time, but not the United States.

This country started running a payments deficit as early as 1950, at an average rate of over $1 billion a year – except for 1957, the year of the Suez crisis, when we ended the year with a small net surplus. However, in 1958 the deficit rose to $3.4 billion and $2.3 billion in gold was transferred to foreign ownership. The deficit is estimated at $4 billion for 1959 but the gold transfer rate has dropped.

Many "easy" cures have been proposed, with little regard for either the causes of the deficit or the effects such solutions would have on other U. S. policy objectives. Typical examples were described recently by John J. McCloy, former President of the World Bank: "The deficit has been seized upon by anyone who has a particular devil to exorcise. Those who would withdraw our defenses from NATO, those who would do away with foreign aid, those who would seek a return to protectionism, those who would like to return to that misnomer of 'fortress America'—all have been using imbalance of international payments as an argument for their cause."

What Is a Payments Deficit?

From year to year, each country keeps an account of its balance of payments—i.e., what has been paid out to other countries and what has been received, for all the infinite variety of public and private transactions abroad. Such accountings are needed because of the unlikelihood that the combined public and private payments flowing out of each country will automatically equal the combined receipts from abroad. Whether there is a deficit or a surplus depends on whether the income or outgo total is greater.

Exports are "receipts"; imports, "payments." In these terms, this country has long had a favorable balance of *trade*, and exports still exceed imports. Large export totals can also go a long way toward creating a favorable balance of payments by balancing out other "payments" items, such as tourist travel, private investments, foreign aid, and support of our troops abroad.

A temporary deficit in a country's payments balance is not necessarily a worry. It is only when the imbalance continues, depleting its international reserves, that there is cause for concern.

A U. S. deficit is taken care of by a) acquisition by foreign governments and citizens of liquid dollar assets, usually held on deposit in American banks or in U. S. government securities, b) transfer of gold to foreign ownership (foreign governments and central banks holding dollars can use them to purchase gold from the U. S. Treasury). In contrast to holdings in gold, the dollar holdings can earn interest.

Why a U. S. Deficit?

What factors caused the sharp increase in the U. S. deficit in 1958? Why didn't the United States export enough goods and services, as in previous years, to compensate more nearly for its large outflow of dollars? Why did Americans continue to buy imported goods at a high rate despite the 1958 recession? Such questions as these economists have been asking themselves for months.

Economists, like doctors, are cautious about prescribing miracle drugs when an aspirin will do. In order to prescribe, symptoms must be analyzed, diagnosis made, general health of the patient taken into account; and chances that the ailment if left alone will run its course must be considered. And then, of course, it may not be a disease at all, but just growing pains. Many symptoms are transitory and will probably subside if we practice the rules of good

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WHAT'S IT TO YOU?
1960

Leap year? Election year? 11th presidential election in which all women have had the vote? League's 40th birthday anniversary? League national Convention year? There could be over 1500 delegates in St. Louis April 25-29; will a member of your League be there?

economic health such as sound monetary and fiscal practices.

Though proposed remedies vary, there is general agreement among the economists on the diagnosis so far.

The trend is regarded as a direct consequence of our success in achieving a major U. S. policy objective: to reconstruct the European economy and build up its depleted dollar reserves in order to expand world trade.

It does not follow from this diagnosis that this country has done something it should not have done. As a Chase Manhattan Bank Newsletter points out: "Looking at the balance of payments as a whole, recent deficits do not signify that the United States is in a basically weak position in the international economy. Rather, it suggests that the $65 billion spent by the U. S. government since World War II to strengthen the free world economically and politically is paying off." In other words, the remarkable gains which other industrial countries have made in output and productivity, the restoration of their financial stability, and the increase in their international reserves are all signs of a new era.

In addition to the underlying causes, other factors contributed to the large deficit in 1958. For one, the 1957-58 recession in Europe cut back our exports for industrial expansion there. Despite the recession at home, American consumers continued to buy imports at a high level. The recession also contributed to the marked drop in the price of raw materials which represent a major source of income of the developing countries; as a result, they bought fewer U. S. exports.

The net outflow of U. S. private long-term investment (especially to Europe) reached a peak in 1958. Also, the competitiveness of some U. S. goods which had previously been high—automobiles, for example—declined during this period.

What Should Be Done?

There is a wide range of measures which a country can resort to in order to correct a continuing balance-of-payments deficit. The alternatives are: 1) methods which further or are consistent with other major national policy objectives, or 2) steps which represent a reversal of other national policies.

Reduction of Foreign Aid

One of the cures generally rejected is a severe reduction or elimination of economic assistance to the developing countries. Economists agree that these cuts will not improve the payments balance dollar for dollar. Furthermore, as a Committee for Economic Development policy statement points out, "the scale of the U. S. contribution to the costs of common defense and of economic assistance to the underdeveloped world should not be determined by our balance-of-payments position. The American economy is strong enough and adaptable enough to bear the costs that our national interests require."

Tied Loans

One proposed method of helping to stimulate exports is to subsidize exports or to restrict foreign borrowers to buying only American goods. The "tied loan policy" of the Development Loan Fund, announced last October, sets an unfortunate precedent by moving away from the principle of liberal, multilateral trade. It also complicates unnecessarily the development efforts of the developing countries. The policy is defended as a method of stimulating other industrial countries to increase their share of help to the developing countries.

Import Restrictions

Import restrictions are generally rejected as a method of correcting our balance-of-payments deficit. Not only would they constitute a major reversal of U. S. liberal trade policy, but restrictions such as tariffs "have a way of staying on after the temporary difficulty is corrected." Restrictions in the long run would only restrict expanding world trade and add to our payments headache.

Exports

At the head of practically every "recommended list" of deficit-correcting measures is the expansion of exports. This method is generally regarded as the most effective cure without harmful side effects. The CED Statement, for example, points out that "our ability to export" will enable us to carry out the other policies which our national interests require, including military and economic assistance and private investment abroad.

There is already a definite improvement in our total exports. Exports to Europe from this country were up (with the exception of cotton and oil) about 20 percent from a comparable period for 1958. Even so, as the 1960 President's Economic Report emphasizes, the strengthening of exports continues to be essential in order "to assist in attaining a needed adjustment of the balance of payments consistent with our goal of promoting multilateral world trade."

The Department of Commerce is currently holding consultations with leading businessmen and trade leaders in order to seek devices on a proposed export-promotion plan. Also, the State Department is urging other countries to lift restrictions against U. S. imports which had been adopted during the dollar shortage.

In short, our payments deficit is a reflection of many fundamental changes taking place in our economic relations with other countries. More and more, our economy is becoming an integral part of the world economy. The American consumer is beginning to shop on a global basis, selecting what he wants from among the world's products as well as from those produced in South Bend and Detroit. The American investor is looking to Frankfurt or to Paris, in addition to New York, for ways to invest his money. The American tourist is out to see the rest of the world as well as his own country. The American businessman is finding that, in order to keep up his pace-making role in technology, innovation, and productivity, he must increasingly tailor his products according to the changing tastes of his customers at home and abroad. The American dollar continues to serve other countries as their major international reserve; this means that they have as much at stake in its continued soundness as we do.

The League's national President was one in a special category of women "pinned" with the Boy Scout badge in Washington, D.C., in February. Mrs. Phillips was one of seven honorees including heads of a few other national organizations. Other recipients included the Cabinet, U. S. Senators, and U. S. Representatives. The ceremony marked the 50th anniversary of the Boy Scouts of America.

KEEPING UP WITH LEAGUE PROGRAM

MUTUAL SECURITY: The President proposed a $4.175 billion Mutual Security Program to Congress February 16, $2 billion to be used for military aid, the other $2.175 billion for various forms of economic assistance. The increase in the request for military funds was made because the backlog of military hardware has been exhausted, due to cuts in appropriations made by Congress in the past few years. The message emphasized economic assistance to Africa, India, Pakistan, and Taiwan. Other items in the request are, in millions: *Defense support*—$724 for 12 countries to help make up budget deficits caused by unusually large military forces; *Development Loan Fund*—$700; *Technical Cooperation*—bilateral, $172.5; U.N., $33.5; Organization of American States, $1.5; *Special Assistance*—$268 to other nations "where such resources are essential to the maintenance of their freedom and stability"; the message listed Morocco, Libya, Tunisia, Jordan, Afghanistan, Bolivia, and Haiti; *Contingency Fund* — $175; *Other programs* (UNICEF, refugee, atoms for peace, etc.) —$101.

Hearings on the authorizing legislation began before the House Foreign Affairs Committee February 17. Since last year's authorization covered a two-year period for military assistance and the Development Loan Fund, these will not be considered by the legislative committee this year; they will be, by both Appropriations Committees.

A new section in the Mutual Security authorization, S. 3058, introduced by Sen. Fulbright (D., Ark.) February 18, would affirm U. S. willingness to participate in the cooperative program for development of the Indus River. India and Pakistan are joining in this project with the World Bank; it is expected to play a major role in development of both countries.

U.S. funds used by or under supervision of the Bank would be used under Bank standards for completion of plans, cost estimates, and determination of feasibility, rather than standards contained in legislation for domestic water development projects. S. 3058 also provides that funds made available for the project would not be subject to the requirement of the Merchant Marine Act of 1936 as amended that 50 percent of the material sent abroad for foreign aid programs must be shipped in U.S. vessels.

The President asked Congress February 18 to authorize U.S. membership in the International Development Association, multilateral institution to be financed by member nations of the International Bank and governments of countries seeking to finance growth projects through the Association. Sen. Fulbright introduced this proposal as S. 3074, February 19; it was referred to the Senate Foreign Relations Committee.

February *Intercom*, published by World Affairs Center, U.N. Plaza at 47th Street, New York 17, tells what Americans are thinking and doing about foreign aid; 60¢ a copy.

WATER RESOURCES: The Senate Interior and Insular Affairs Committee held hearings on S. 2549, the Resources and Conservation Act of 1960, January 28 and 29. Mrs. Arthur E. Whittemore, member of the national Board, presented a statement for the League.

Another regional hearing was held in February by the Senate Select Committee on National Water Resources, in Indianapolis. The Indiana League testified; statements were filed by the Illinois and Kentucky state Leagues.

Pamphlet Tier

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The House attempt February 25 to override the presidential veto of H.R. 3610, the water pollution control bill, failed by a vote of 249-157. (A two-thirds vote is needed to override a veto.)

D.C. HOME RULE: The drive to obtain signers for the discharge petition to bring the D.C. Home Rule bill to the House floor continues.

LOYALTY - SECURITY: Uncertainty as to whether Congress or the Executive would be the first to act in response to the Supreme Court's invalidation of the Industrial Security Program (Greene v. McElroy, June 1959) was resolved February 20, when the President issued an Executive Order authorizing an industrial security program in which "confrontation of one's accusers" becomes the *general* rule, with certain exceptions.

Executive action came soon after House passage on February 3 of H.R. 8121, sponsored by Rep. Walter (D., Pa.). This bill authorizes the Secretary of Defense to prescribe procedures to protect from disclosure all information which in his opinion would affect "the national security, safety or public interest, or would tend to compromise investigative sources or investigative methods." The bill, which does not provide any rights for the individual, slipped through the House on the consent calendar, a procedure designed to expedite noncontroversial measures. Its passage could have been prevented had even one voice been raised in objection. Referred to the Senate Internal Security Subcommittee, it has an uncertain future in light of the Executive Order. It is assumed that enactment in its present form would invalidate the provisions in the Executive Order for limited confrontation rights.

Sen. Keating (R., N.Y.), co-sponsor with Sen. Dodd (D., Conn.) of another bill, S. 2416, stated February 23 that "the President's action does not obviate the necessity for legislation," said that this bill "in many respects parallels the President's Executive Order." Both Senators are members of the Senate Internal Security Subcommittee, to which H.R. 8121 and S. 2416 have been referred.

The World Court

Disputes between nations are often settled through usual diplomatic channels by negotiation, conciliation, good offices, or other means. However, in the late 18th and 19th centuries, the use of arbitration was developed in cases in which such disputes could not be settled through the usual channels. During this period the United States became one of the leaders in the use of arbitration as a means of peaceful settlement of disputes.

The Permanent Court of Arbitration was created by the 1899 and 1907 Hague conventions on pacific settlement of disputes. It was not actually a court but a permanent panel of arbitrators to whom nations could turn. Though a member, the United States never used the panel.

The First Court

The first real court (Permanent Court of International Justice) was created by the League of Nations, and sat from 1922 to 1940. It was to supplement but not to supplant the panel. It became the predecessor of the present Court. The United States was not a member.

Under the slogan "Law not War," members of the League of Women Voters worked zealously from 1923 to 1935 in support of U. S. membership in the first court. The League considered the court (whose structure and jurisdiction were quite similar to the present court's) the "best existing application of the principle of law as opposed to force in the settlement of international disputes."

The Present Court

The International Court of Justice was created in 1945 as the principal judicial organ of the United Nations. All U. N. members were ipso facto parties to the court statute. Though the jurisdiction of the court is optional, nations can make declarations accepting compulsory jurisdiction. Such a declaration—limited by certain reservations—was made by the United States pursuant to S. Res. 196 of the 79th Congress.

On July 12, 1946, the League of Women Voters, during hearings on the resolution, submitted a statement to the Senate Foreign Relations Subcommittee on U. S. acceptance of compulsory jurisdiction of the Court. The League said: "Support of the resolution is a logical outgrowth of our long history of supporting arbitration treaties, supporting the entrance of the United States into the first court, and working for the extension of international law. If decisions by law are to be substituted for decisions by force, it cannot be left to each nation to decide which disputes it will submit to the Court." The League was specifically empowered to act on the resolution under the U. N. Current Agenda item adopted by the 1946 national Convention.

On July 24, 1946, the Senate Foreign Relations Committee unanimously reported S. Res. 196.

On July 31 the Senate began its consideration.

On August 2, 1946, the Connally Amendment (italics quoted below) was offered and accepted. *On the same day* S. Res. 196 was passed by the Senate. As amended it said that the U. S. declaration accepting compulsory jurisdiction should not apply to "disputes with regard to matters which are essentially within the domestic jurisdiction of the United States *as determined by the United States.*" That is, the United States reserved the right to determine whether the subject of a dispute was or was not within the jurisdiction of the Court.

Following the Example

Other nations followed the U. S. example and adopted similar reservations. Still others, on the basis of reciprocity, have invoked reservations. The effect has been to place beyond the jurisdiction of the Court the very cases which the Court was set up to handle.

The current trend, in response to the adverse effects of such reservations, is to repeal them. In 1958 the United Kingdom deleted its reservation; in 1959 France and India filed new declarations omitting theirs; in 1960 (February) the Senate Foreign Relations Committee completed hearings on S. Res. 94 of the 86th Congress to repeal the U. S. reservation. If the Committee favorably reports the resolution and the Senate votes on it, a two-thirds vote is required for passage. No House action is needed.

Despite the League's long support of increased use of the U. N. system, as well as its specific support of U. S. membership in the World Court, the League is not in a position to act on the repeal of the Connally Amendment, since members have not studied the World Court issue in the past 10 years.

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